

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6402

BILL NUMBER: SB 427

NOTE PREPARED: Jan 6, 2013

BILL AMENDED:

SUBJECT: New Employer Tax Credit.

FIRST AUTHOR: Sen. Taylor

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill modifies the New Employer Tax Credit. It lowers the minimum number of qualified employees a corporation or a pass through entity must hire to qualify for the credit. It reduces the minimum hiring threshold from 10 to 1. The bill excludes an individual hired as a seasonal worker from the definition of "qualified employee".

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect provisions in the bill. The DOR's current level of resources should be sufficient to implement these changes.

Indiana Economic Development Corporation (IEDC): This bill could potentially expand the pool of entities that are able to qualify for the New Employer Tax Credit. If the changes to the bill increase tax credit applications, the IEDC could potentially incur additional administrative expenses.

Explanation of State Revenues: *Summary* - By lowering the minimum number of qualifying employees from 10 to 1, this bill could increase the pool of potential applicants eligible for the New Employer Tax Credit beginning in tax year 2014. These changes could potentially reduce revenue collected from the Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, and Financial Institutions Tax beginning in FY 2015, provided credits are approved by the IEDC. A more precise estimate of the potential revenue loss may not be suitable given that the current credit applicable to qualified employers with 10 or more employees has not been used. However, using a benchmark based on 5,000 new employees hired in 2014 and 2015 and assuming credits for

these employees are approved by the IEDC, the bill could potentially reduce revenue by \$15.7 M in FY 2015 and \$31.4 M in FY 2016 and FY 2017.

Background Information - Currently, the New Employer Tax Credit is available to a new or existing corporation or pass through entity that employs at least 10 qualified employees as a result of locating a new business enterprise in Indiana, relocating an existing business enterprise from another state to Indiana, or expanding an existing business enterprise in Indiana after December 31, 2009. The tax credit must be approved by the IEDC. The tax credit equals 10% of the wages paid each month to qualified employees for a period of 24 consecutive months following the credit approval by the IEDC and during which time the corporation or pass through entity complies with all the credit requirements. If an eligible business approved for a credit fails to employ at least 10 qualified employees or comply with other credit requirements during the 24-month period, the credit ceases and cannot be claimed for wages paid after that point. The IEDC may approve applications for credits until January 1, 2017.

The credit is nonrefundable, but unused credits may be carried forward for up to 9 years. Unused credits may not be carried back. The credit may be applied against Individual AGI, Corporate AGI, Financial Institutions, and Insurance Premiums Taxes. Revenue collected from those taxes is deposited in the state General Fund.

The IEDC does receive inquiries on this tax credit. However, they have not approved or authorized any New Employer Tax Credits as of June 30, 2012. This may be because businesses are choosing the EDGE tax credit instead of the New Employer Tax Credit. The EDGE credit has a similar application process, and it is available to employers who hire at least one new employee. In addition, the EDGE credit is refundable.

The benchmark was developed by first assuming the IEDC will approve credits for 5,000 new employees in 2014, 2015, and 2016. Next, the study assumes each new employee will be retained for a complete 24-month period and earn the median Indiana annual wage of \$31,343. Based on those assumptions, the estimated revenue loss from this tax credit could be \$15.7 M in FY 2015, \$31.4 M in FY 2016, and \$31.4 M in FY 2017.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; IEDC, *Economic Incentives and Compliance Report*, June 30, 2012; LSA, *Indiana Income Tax Credit Study: New Employer Tax Credit*, September 2012; BLS *Indiana: May 2011 State Occupational Employment and Wage Estimates*, March 27, 2012; LSA Quarterly Census of Employment Wages Database.

Fiscal Analyst: Heath Holloway, 317-232-9867